

**TO: SCHOOLS FORUM
9 DECEMBER 2021**

**INITIAL PROPOSALS FOR THE 2022-23 EARLY YEARS BUDGET & FUNDING FORMULA
Executive Director: People**

1 PURPOSE OF DECISION

- 1.1 The purpose of this report is to seek agreement for changes to the Early Years Funding Formula from April 2022, the principles to be adopted for allocating the announced increases to the Early Years Block Budget and to consider if appropriate arrangements are in place for administration of the early years free entitlements.

2 RECOMMENDATIONS

To RECOMMEND to the Leader of the Council:

- 2.1 **That taking account of comments from providers to the consultation on the Council's proposed changes to the Early Years Funding Formula from April 2022:**
- a) **the deprivation supplement will apply to the universal and extended entitlements for 3- and 4-year-olds**
 - b) **funding bands for the IDACI measure of the deprivation supplement are reduced from three to two**
 - c) **calculation of the IDACI measure of the deprivation supplement is changed to a three-year rolling average score**
 - d) **the revised process for allocating providers to the IDACI measure of the deprivation supplement, as set out in point 5.15.**
 - e) **eligibility for the quality supplement will be limited to the setting in which the person with the relevant early years qualification at level 5 or above is based**
 - f) **there are appropriate arrangements in place for administration of the early years free entitlements**
- 2.2 **Initial proposals for the 2022-23 Early Years Block Budget as set out in the supporting information in points 5.34 to 5.36**

To NOTE:

- 2.3 **The final 2022-23 Early Years Block Budget proposals and funding rates to be allocated to the Early Years Funding Formula will be presented to the Forum for comment in January.**

3 REASONS FOR RECOMMENDATIONS

- 3.1 The proposals set out in the paper consider the increase in early years funding announced in October 2021 and are in line with the statutory guidance, local priorities and the views of the Early Years Forum and early years providers.

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 Alternative options are detailed in the supporting information.

5 SUPPORTING INFORMATION

Background

- 5.1 This report presents proposals on the Early Years Block (EYB) element of Dedicated Schools Grant (DSG) that the Department for Education (DfE) allocates to Local Authorities (LAs) to fund provisions and support for children up to the age of 5. It covers:
- a) the 15 hours free entitlement to education and childcare for disadvantaged 2-year-olds
 - b) the universal 15 hours free entitlement to education and childcare for all 3- and 4-year-olds
 - c) the extended 15 hours free entitlement to education and childcare for eligible working parents of 3- and 4-year-olds
 - d) the early years pupil premium (EYPP)
 - e) the disability access fund (DAF)
 - f) the Special Educational Needs Inclusion Fund (SENIF)
 - g) other specialist and general support services
- 5.2 The statutory regulatory framework necessitates that the council decide on the arrangements to be put in place to meet the requirements for children up to the age of 5 and associated resources, and for Schools Forum to comment on their appropriateness. Schools forums must also be consulted on changes to local early years funding formulas, including considering central spend by 28 February 2021, although the final decision rests with the local authority and will be taken by the Leader of the Council on 18 January 2022.

National Funding Framework

- 5.3 The DfE uses an Early Years National Funding Formula (EYNFF) to distribute DSG income to LAs. This funding framework sets out key requirements on LAs in setting their EYB budgets for **3- and 4-year-olds**. These are:
- a) To develop and maintain a local EYFF in accordance with parameters set by the DfE, undertaking consultation with providers and the Schools Forum when any changes are proposed, where the EYFF:
 - i) should include a single funding rate (including the same base rate and supplements) for both entitlements (that is, both the universal 15 hours, and the additional 15 hours for working parents)
 - ii) must plan to pass on at least 95% of funding directly to providers – the “pass through rate”
 - iii) must use a universal base rate, paid at the same value to all providers
 - iv) must use a deprivation supplement to target additional funds to the providers admitting the most disadvantaged children
 - v) can include other discretionary supplements, which the DfE restricts to rurality / sparsity, flexibility of provision, English as an additional language (EAL) or quality of provision
 - vi) supplements selected by an LA can generally use any measure of eligibility, provided it is applied equally to all providers in a transparent and fair way
 - vii) must not allocate more than 10% of funding through supplements

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- b) That a Special Educational Needs Inclusion Fund (SENIF) must be created to support children with lower level or emerging SEN
 - c) Required to pass on the EYPP to providers to support eligible disadvantaged children
 - d) Required to pass on DAF funding to providers to support disabled children's access to the entitlements
- 5.4 Requirements on funding providers for **the most disadvantaged 2-year-olds** is more straightforward than for 3- and 4-year-olds, with no "pass through rate" or payment of additional funding supplements with the DfE encouraging LAs to pay a single flat rate amount. Neither is there a requirement for the SENIF to apply to 2-year-olds, although this is permitted and included in arrangements in the BF SENIF.

Key Principles

- 5.5 The proposals from Bracknell Forest Council are intended to maximise quality of provision, increase the number of free entitlement hours and target financial support to children that need it the most to succeed. The expectation is that proper targeting of financial support in early years settings now will result in more children achieving their potential and fewer developing more complex and costly support needs. This approach reflects the key strategic aims of the council.
- 5.6 In considering changes to the EYFF, the following key principles have been applied, which remain unchanged from the principles adopted when the EYFF was consulted on in 2016:
- a) The Formula must be transparent, stable and predictable in its delivery of funding, compatible with DfE requirements and efficient to manage.
 - b) Data used for funding purposes e.g., the measure of deprivation in the deprivation supplement, must be readily available and objective in nature.
 - c) Hourly supplements to be made where justified to incentivise good practice, or reflect an additional cost, or promote national or local policy objectives.
 - d) The Formula must be affordable within the existing early years funding envelope.

Funding decisions previously taken by the Forum

- 5.7 Reflecting on the outcomes from previous consultations with providers and the DfE requirements on LAs relating to the EY Funding Framework (paragraphs 5.3**Error! Reference source not found.** and 5.4), the Schools Forum agreed the following parameters for setting the 2021-22 EYB budget as follows:
- a) Funding to be managed centrally by the council at 4.8% of income
 - b) The SENIF should be set at 2%
 - c) The provider contingency should be set at 1.5%
 - d) The EYFF should allocate 91.7% with:
 - i) The uniform base rate set at around 93.63%
 - ii) The deprivation supplement set at around 4.3%
 - iii) The quality supplement set at around 2.1%
 - iv) No supplements to be paid for rurality / sparsity, EAL or provider flexibility
 - e) The DAF and EYPP funding allocation should be allocated to providers at the same funding rate as received from the DfE
- 5.8 The current EYFF and funding rates are set out in Annex 1.

Bracknell Forest Consultation

- 5.9 In July 2021 the Council presented initial proposals for changes to the EYFF to the Early Years Forum. These proposals addressed concerns with the deprivation and quality supplements. Feedback from the Forum informed the proposals in the October 2021 consultation with all early years providers registered for the free entitlements, which asked providers' views on proposed changes to the EYFF and the current funding arrangements. The consultation document can be viewed at: <http://consult.bracknell-forest.gov.uk/portal/>

Issues identified with the deprivation supplement

- 5.10 The deprivation supplement is comprised of two measures:
- Early Years Pupil Premium (EYPP) Measure, which pays an hourly top up supplement on the universal funded hours of qualifying children
 - Income Deprivation Affecting Children Index¹ (IDACI) Measure which pays an hourly top up supplement on universal funded hours only for 3- and 4-year-olds at a setting.

As set out in the National Funding Framework, supplements should apply to both the universal & extended entitlements for 3- and 4-year-olds. Neither the IDACI nor EYPP measure of the deprivation supplement currently meet this requirement.

- 5.11 The IDACI measure aims to target additional funding at the 40% most deprived children, with particular focus on the 20% most deprived. In January of each year the Council calculates an average IDACI score for all settings registered to receive the free entitlements, with settings allocated to a funding band based on this average IDACI score. The bands and the scores required for each band were agreed by Schools Forum in December 2019. Three issues with the IDACI measure were identified:
- The annual IDACI score calculation and subsequent allocation of providers to funding bands is unpredictable and some providers see annual changes in their IDACI funding. These annual changes do not meet the key principles of predictability and stability.
 - The IDACI bands and scores agreed in 2019 were calculated without making allowances for the number of children in each setting, consequently a childminder with one child had as much impact on the calculation as a setting with 60 children.
 - Eligibility for the IDACI bands uses fixed scores based on attendance data from 2019. The fixed eligibility criteria result in variances between the planned and actual percentage of providers (and consequently children) qualifying for each band.
 - The Early Years Forum felt the IDACI measure was complicated and suggested simplifying the measure by reducing the number of funding bands.

Proposed changes to the IDACI supplement

- 5.12 To comply with the requirements of the National Funding Framework, it is proposed that from April 2022 the EYPP and IDACI measures of the deprivation supplement will apply to the universal **and** extended entitlements for 3- and 4-year-olds.
- 5.13 Reduce the IDACI measure from three to two funding bands.
- 20% highest average IDACI scores – Band 2
 - Next 20% highest average IDACI scores – Band 1

¹ Income Deprivation Affecting Children Index (IDACI) - measures by location the proportion of all children aged 0 to 15 living in income deprived families. The more deprived is an area, the higher the score. Further detail on IDACI which is a subset of the Index of multiple deprivation (IMD) can be found at the following link: <https://www.gov.uk/government/collections/english-indices-of-deprivation>

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Band 2 would be funded at double the rate of band 1.

- 5.14 Change the calculation of the IDACI measure to a three year rolling average score, calculated each January using a weighted average of the 3 year period to account for the proportion of the year each child has attended the setting
- 5.15 Improve the targeting of funding at the 40% most deprived children by using the following process to allocate providers to funding bands:
- a) Use the three year average IDACI score to rank all group providers from highest to lowest.
 - b) Allocate group providers with the 20% highest rank to band 2.
 - c) Allocate the next highest 20% of group providers (by rank) to band 1.
 - d) Use the scores of the group providers allocated to bands 1 and 2 to set the IDACI scores required by childminders for each funding band. For example, if the lowest three year average IDACI score of group providers in band 2 was 0.15 all childminders with a score of 0.15 or higher would be allocated to band 2

Issues identified with the quality supplement

- 5.16 A setting is eligible for the quality supplement if the person leading the early years foundation stage curriculum has a relevant early years qualification of level 5 or above. Current arrangements allow a suitably qualified person to lead the early years foundation stage across multiple settings and for all the settings to benefit from the quality supplement. However, the Early Years Forum commented as follows:
- a) There is no objective test in place to ensure that a suitably qualified person is leading the early years foundation stage curriculum across multiple settings.
 - b) It is arguable whether this arrangement supports good practice
 - c) This arrangement does not reflect an additional cost.

Proposed changes to the quality supplement

- 5.17 Remove the arrangement that allows eligibility across multiple settings based on the qualification level of one person and limit eligibility for the quality supplement to the setting in which the person with the relevant early years qualification at level 5 or above is based.

Administration of the early years free entitlements

- 5.18 In line with the requirements of the statutory regulatory framework (point 5.2 above) the Council asked providers for feedback on the current arrangements for administration of the early years free entitlements. The feedback received indicated that the majority of providers find the process for claiming the entitlements very easy or fair easy to use, with no common issues or concerns identified. It is proposed that School Forum agrees that appropriate arrangements are in place for administration of the early years free entitlements

Summary Outcomes

- 5.19 A total of 32 responses were received to the consultation, a response rate of 20% of all early years providers registered for the free entitlements. This was comprised of 17 out of 44 private, voluntary, and independent (PVI) providers, 13 out of 99 childminders and 2 of 18 maintained schools and academies.
- 5.20 Annex 2 provides a numerical analysis of responses to the consultation.

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- 5.21 91% or 29 out of 32 responses supported applying the EYPP & IDACI measures of the deprivation supplement to the universal and extended entitlements.
- 5.22 88% or 28 out of 32 responses supported the reduction in IDACI funding bands from three to two.
- 5.23 75% or 24 out of 32 responses supported the adoption of a three year rolling average score for the IDACI measure.
- 5.24 78% or 25 out of 32 responses supported the proposed change to the process for allocating IDACI measure funding bands.
- 5.25 66% or 21 out of 32 responses agreed with the proposal to limit the quality supplement to the setting in which the person with the relevant early years qualification at level 5 or higher is based.
- 5.26 Question 6 asked providers to indicate how easy they find the process for claiming funding, with 81% of respondents indicating that they found the process very easy or fairly easy. No respondents indicated that they had found the process difficult.
- 5.27 Some providers made comments in response to questions 7 and 8 of the consultation. These comments have been considered in preparation of this paper, however there are no common themes indicative of an issue with current funding arrangements.

Impact from the proposed changes

- 5.28 The impact of the proposed changes as outlined below assume that all proposed changes are implemented but are considered in isolation of any increase in funding. This allows for a better understanding of the impact of the proposed changes to the EYFF. The impact of these proposed changes in conjunction with the announced increase in early years funding is considered in point 5.35
- 5.29 Applying the EYPP and IDACI measures of the deprivation supplement to the extended entitlements will increase the hours eligible for funding and consequently costs, with a forecast increase in 2022-23 of £60k. To remain within the current funding envelope a change in funding rates would be required:
 - a) For the EYPP measure this equates to a reduction from £1.54 to £1.40.
 - b) The changes to the IDACI measure implement the feedback from the Early Years Forum for greater simplicity and predictability, while improving the focus of the IDACI measure on the 40% most deprived children. It is proposed that funding for band 1 (20-40% most deprived) is set at £0.16 per hour, with band 2 (20% most deprived) set at double the band 1 rate at £0.32 per hour.
- 5.30 The forecast impact of the proposed changes to the deprivation supplement and quality supplement, including the reduction in funding rates are forecast to result in the following highlight changes:
 - a) 2 (1%) providers will see a reduction in their hourly rate of up to 6%
 - b) 8 (5%) providers will see a reduction in their hourly rate of up to 4%
 - c) 8 (5%) providers will see a reduction in their hourly rate of up to 2%
 - d) 35 (22%) providers will see a reduction in their hourly rate of up to 1%
 - e) 77 (49%) providers will not see a change in their hourly funding rate
 - f) 18 (11%) providers will see an increase in hourly rate of up to 2%

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- g) 4 (3%) providers will see an increase in hourly rate of up to 4%
- h) 1 (1%) provider will see an increase in hourly rate of up to 6%
- i) 4 (3%) providers will see an increase in hourly rate of up to 8%

(this forecast is based on 157 providers funded in the 2021-22 financial year and is provided as an exemplar only)

Early Years Block funding increase for the 2022-23

- 5.31 On 27 October 2021 the Government announced additional funding for the early years entitlements of £160m in 2022-23. This is for Local Authorities to increase hourly rates to childcare providers. Details of the Early Years 2022-23 hourly rates to LA's were published on 25 November 2021, with hourly funding rates for Bracknell Forest set at:
- a) 2-year-olds - £6.25 (increase of £0.20)
 - b) 3- & 4-year-olds - £5.24 (increase of £0.17)
 - c) Early Years Pupil Premium - £0.60 (increase of £0.07)
 - d) Disability Access Fund - £800 per eligible child per year (increase of £185)
- 5.32 Due to the timing of the announced increase, there is insufficient time to consult all providers on the allocation of the increase to the Early Years Block funding for 2022-23. However, the Early Years Forum considered options for allocation of the increase in funding at its meeting on 11 November. The three options considered were:
- a) Option 1
Apply the announced increase in funding for 3- and 4-year-olds allocated to the EYFF to the uniform base rate that is paid to all providers. An increase in funding for 2-year-olds will be applied to the hourly rate paid to providers
 - b) Option 2
Apply the announced increase in funding for 3- and 4-year-olds equally to all components of the Early Years Funding Formula. An increase in funding for 2-year-olds will be applied to the hourly rate paid to providers
 - c) Option 3
Use the increase in funding for 3- and 4-year-olds to offset the impact of the proposed changes to the EYPP and IDACI measures and apply the remainder of the increase to the uniform base rate that is paid to all providers. An increase in funding for 2-year-olds will be applied to the hourly rate paid to providers
- 5.33 The view of the Early Years Forum was that the option 1 should be the principle used for allocating the funding increase, as it provided the predictable and stable income providers need and increased funding for all providers equally.

Initial proposals for the 2022-23 Early Years Block budget

- 5.34 Due to the timing of the announcements, work is still underway to understand the financial impact of the funding increase on forecast BFC income and provider funding rates. In the absence of complete financial information for the 2022-23 Early Years Block Budget the Council is proposing a set of principles for setting the budget and associated provider hourly funding rates.
- a) The components of the Early Years Funding Formula as agreed for 2021-22 are retained for 2022-23
 - b) The announced increase in early years funding will be applied to the uniform base rate for 3- and 4-year-olds that is paid to all providers. An

increase in funding for 2-year-olds will be applied to the hourly rate paid to providers

- c) The total funding allocated to the SENIF and provider contingency will remain unchanged and should each be set at 1.4% of total income
 - d) The EYFF should allocate 92.2% of total income with:
 - i) The uniform base rate set at around 94.3%
 - ii) The deprivation supplement set at around 3.7%
 - iii) The quality supplement set at around 2%
 - iv) No supplements to be paid for rurality / sparsity, EAL or provider flexibility
 - e) Funding to be managed centrally by the council at 5% of income.
 - f) The DAF and EYPP funding allocation should be allocated to providers at the same funding rate as received from the DfE
- 5.35 Final 2022-23 Early Years Block Budget proposals and funding rates to be allocated to the Early Years Funding Formula will be presented to the Forum for comment in January.
- 5.36 Considering the proposed changes to the EYFF in points 5.12 to 5.14 and 5.17, the proposed principles for setting the budget in point 5.33 and the announced increase in funding as set out in 5.31, the following highlight changes are expected in provider funding rates.
- a) 1 (1%) provider will see a reduction in their hourly rate of up to 2%
 - b) 1 (1%) provider will see a reduction in their hourly rate of up to 1%
 - c) 15 (10%) providers will see an increase in their hourly rate of up to 2%
 - d) 121 (78%) providers will see an increase in their hourly rate of up to 4%
 - e) 8 (5%) providers will see an increase in their hourly rate of up to 6%
 - f) 10 (5%) providers will see an increase in hourly rate of more than 6%

The extension of the deprivation supplement to all free entitlement hours is a significant factor where providers are predicted to receive an increase in funding of more than 5%. These figures do not include Early Years Pupil Premium and Disability Access Funding payment.

(Forecast based on 156 providers funded in the 2021-22 financial year and provided as an exemplar only)

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 6.1 There are no specific legal issues arising from the recommendations in this report. The legal issues are addressed within the report.

Director of Resources

- 6.2 The anticipated financial implications are set out in the supporting information

Impact Assessment

- 6.3 No Equalities Impact Assessment is required as the proposed changes implement statutory guidance which includes eligibility criteria.

Strategic Risk Management Issues

- 6.4 There is no perceived risk, all proposals are within budget limits and are informed by provider feedback.

BACKGROUND PAPERS

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/718179/Early_education_and_childcare-statutory_guidance.pdf

Early education and childcare statutory guidance for local authorities - June 2018

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/718181/Early_years_entitlements-operational_guidance.pdf

Early years entitlements: operational guidance for local authorities and providers

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